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STATEMENT OF KERMIT GORDON
DIRECTOR, BUREAU OF THE BUDGET
BEFORE THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE
OF THE HOUSE OF REPRESENTATIVES ON
PAY ADJUSTMENTS IN STATUTORY SALARY SYSTEMS

Mr. Chairman and Members of the Committee:

I am glad to have this opportunity to record the Administration's support for adjustments in executive salaries as set forth in identical bills, H.R. 8716 and H.R. 8717. The bills also provide adjustments in career, legislative, and judicial salaries.

In recent weeks this Committee and its staff have made a thorough analysis of the President's recommendations for pay adjustments in the statutory salary systems for career employees. I can add little to the record of the hearings on the bills which would make those adjustments, but Mr. Staats and I would be glad to answer any further questions which the Committee may have.

In the report of the Senate Committee on the 1962 Salary Reform Act, the President was asked "to recommend for consideration at the next session of Congress appropriate increases in Federal executive salaries at all levels." Responding to this request, the President asked his Advisory Panel on Federal Salary Systems, augmented by the addition of Mr. Justice Stanley F. Reed and former Congressman Robert Ramspeck, to prepare recommendations on appropriate levels for executive salaries; on the relationship

between executive salaries and those payable to career employees; and on the relationship between executive salaries and those paid to the Congress and the judiciary. The report of the President's Panel, commonly referred to as the Randall Report, was reprinted by this Committee on August 16.

The Advisory Panel has rendered service of exceptionally high order to the Government and the American public. Made up of leaders from industry, labor, education, and the public service, the Panel recommended the reform of the Federal statutory salary systems and, after a review of military compensation, pointed the direction of further studies of that subject which are now being pursued in the Department of Defense. Its report on executive, legislative, and judicial pay was its final service.

The President asked the Bureau of the Budget and the Civil Service Commission to review and make recommendations on the Randall Panel's report. Our agencies have made this review, and, except for the specific salary rates proposed, we concur in the Panel's findings. H.R. 8716 and H.R. 8717 apply the Randall Panel findings in essentially the same fashion as would we, and provide salary rates which, although lower than those recommended by the Panel, we believe to be appropriate.

The Panel, in its report, stated:

"Giving up a high income to accept a lesser income in a Federal office has been a common experience in the history of our country. We believe, however, that such action should not require the individual to draw down his personal resources in large amounts in order to support himself and his family while in office. The sacrifice must be of an order which many, not just a few, are prepared to make, and it should be no greater in a Federal position than in any other form of public service. Furthermore, there are many able young men who have accumulated no reserves to help them maintain themselves in public office. It is particularly important that inadequate pay scales neither deny our country their services nor create the kind of economic pressure of family responsibility which cuts their service short when they leave public office."

We find the Panel's reasoning persuasive. This Administration has found, as did past Administrations, that the current Government salaries for executives are deterrents to many able men and women who would otherwise be ready to serve in public office, but simply cannot afford it at the salary rates which we pay. Furthermore, these low executive salaries depress unreasonably the rates which we can pay in the higher grade career posts. I am sure that the Committee will agree that the need for outstanding talent and commitment to a Government career for posts at these levels is at least as great as any time in our Nation's history.

It is a truism that no organization, public or private, is better than its leadership. The Government, with its myriad responsibilities, requires leadership of the highest order. Those of us in the executive and legislative branches who are constantly involved with governmental decision-making might draw back for a moment to see our jobs in broader perspective and realize the dimensions of the decisions which Federal officials must make. Leaving aside the great issues of war and peace and others which are peculiar to the public service, we might do well to remind ourselves of the magnitude of those Federal operations which are in some degree comparable with those in private companies.

Public officials manage annual Federal receipts and expenditures far greater in magnitude than anything confronting the executives and board of directors of a private company. They decide to build or not to build facilities far beyond anything which a private company can undertake. They let contracts for procurement of goods and services totaling billions annually.

In the business of government--as in any other business--skilled management is the key to efficiency and economy. Gains in productivity are preponderantly the result of managerial innovations; if, by retaining and recruiting top-notch managerial talent, we are able to speed up the increase in productivity by as little as one percent--in terms of output per unit of manpower input--the consequent saving to the American taxpayer would be in excess of \$150 million. A salary structure for Federal management personnel which will enable the Government to hold its best people and to recruit others of comparable talent will, I believe, contribute to the improvement of productivity in the Federal Government.

The Randall Panel sought criteria for determining at what level Federal executive salaries should be set. They rejected the comparability principle for these high offices, and we agree with that rejection. While the comparability principle is a valid standard for setting Federal career salary rates, it does not in our opinion have equal applicability to salaries for Federal executives. Aside from the difficulty of finding private enterprise responsibilities which compare, for example, with the Secretary of Defense or the Secretary of State, we believe that the considerations which govern the setting of private enterprise executive rates are not, in important respects, applicable to salaries for public office.

Salaries as high as those paid in private enterprise are not required in order that we solve our pay problems for the top Government salary structure. On the other hand, we cannot continue to get along with salaries which are lower than those paid in many State and local governments and

in colleges and city school systems and other non-profit activities. Those salaries have advanced rapidly in the last 5 to 8 years. Federal top salary rates have remained unchanged since 1955-56. We cannot continue to offer salaries which often require incumbents to dig deep into their personal financial resources if, indeed, they are willing to serve at all.

We would, accordingly, derive Federal executive salaries on the structural principle outlined in the Randall report. In other words, we would adopt the six-level executive structure recommended by the Panel, and would build the salary structure for the six levels as an upward projection from the career salary levels which result from career-private enterprise comparability.

H.R. 8716 and H.R. 8717 provide the six-level structure recommended, and the salary rates in the bill are logical extensions of career comparability rates, with the salaries for Levels V, IV, III, and I built up in successive ten percent increments upon the comparability payline rate for GS-18. In this structural concept, Level II is a kind of half-grade inserted between Levels I and III; and Level V, as explained by the Chairman of the Civil Service Commission in his statement, is the lowest executive level with a defined structural relationship to Classification Act grades.

The salary rates thus developed bear a reasonable relationship to career rates. Being thus related to career rates they will also be reasonably related to changes in the United States economy, since any pressure for further change in subsequent years would arise from cumulative career

comparability adjustments in keeping with private enterprise adjustments. The rates are at levels which will remove much of the current deterrent to acceptance of public office. The rates happen also to compare favorably with salaries paid in many State and local governments and in private educational and non-profit institutions, although this was not the method by which they were derived.

The estimated cost of the top salary adjustments proposed by these bills is approximately \$20 million. The executive branch portion of this cost would be \$6.6 million, which could be absorbed without additional appropriations.

In conclusion, I want to emphasize the importance of the steps taken last year in the enactment of the Federal Salary Reform Act. The principles and processes of the Reform Act are fair to Federal employees and to taxpayers, and they remove much of the previous handicap to Government recruitment. It is critical now that we abide by those principles and make the comparability adjustments proposed, and that we make the reasonable adjustments needed to bring our top salary structure into appropriate relationship with the reformed career structure.